

SENT VIA EMAIL

October 15, 2014

Gregg McLean Adam
Carroll, Burdick & McDonough LLP
44 Montgomery Street, Suite 400
San Francisco, CA 94104

RE: Retiree Healthcare

Dear Gregg:

We are in receipt of your letters dated September 23, 2014 and October 14, 2014, requesting grievance arbitration over retiree healthcare contribution rates. We apologize for the delay in responding to the letter dated September 23, 2014.

As you know, the City and the POA began the phase-in to the full retiree healthcare Annual Required Contribution in Fiscal Year 2009 – 2010. At that time, there was no dispute regarding the increase in contribution rates on a year by year basis. The retiree healthcare agreement specifies that no annual increase would exceed 1.25% for employees and 1.35% for the City. In Fiscal Year 2014-2015, the full Annual Required Contribution exceeded the 10% and 11% caps set forth in the agreement.

On February 5, 2014, prior to the Police and Fire Retirement Board Meeting, Jennifer Schembri, Deputy Director of Employee Relations, spoke with you via telephone to ensure that the City and the POA had the same understanding regarding the retiree healthcare contribution rates, since Cheiron had originally stated in the actuarial valuation that the contribution rates should be 10.74% for employees and 11.66% for the City. During that conversation, you confirmed that the City's understanding and the POA's understanding of this issue were the same in terms of the contribution rates, in that the contribution rates should be 10% and 11%, respectively. This conversation was what Ms. Schembri communicated to the Police and Fire Board on February 6, 2014, which Chief Financial Officer Franco Vado attended. Specifically, during the meeting Ms. Schembri stated it was "both of our perspectives that until the meet and confer process is complete, the caps will remain in place, the 10 and 11 caps."

We agree to waive the Step III process given that we understand the POA's position on this issue. Additionally, we have noted that the POA requested a list of arbitrators. In accordance with the MOA language, we will schedule a meeting to prepare a joint statement of the issue to be presented to the arbitrator. Please note that when we meet we would also like to take the opportunity to discuss possible settlement of this issue and avoid grievance arbitration.

Regardless of our disagreement over the contribution rates for this Fiscal Year, given the very high cost of retiree healthcare for the City and employees as well as the significant unfunded liability, we have a shared interest in developing long-term solutions for this issue. The MOA

language clearly states that once the caps have been hit, the parties will meet and confer to address those contributions. We do not believe that the meet and confer process can or should be tolled until the end of arbitration. Please let us know the dates and times the POA is available to meet.

We look forward to working with the POA on this issue.

Sincerely,

A handwritten signature in blue ink, appearing to read 'Alex Gurza', with a long horizontal stroke extending to the right.

Alex Gurza
Deputy City Manager

c: Jennifer Schembri, Deputy Director of Employee Relations
Jim Unland, POA President
John Robb, POA Vice President
Franco Vado, Chief Financial Officer